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STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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July 24, 2002

Special Notice To Michigan Retailers Concerning a Required One-Time Inventory Tax on all Tobacco Products

On August 1, 2002, the tax on cigarettes will increase from 75 cents to \$1.25 per pack of 20 cigarettes and the tax rate on other tobacco products (OTP) will increase from 16% to 20% of the wholesale price of the OTP (OTP includes any cigar or roll for smoking, other than a cigarette, made in whole or in part of tobacco, and any tobacco other than cigarettes, intended for consumption by smoking, chewing, or as snuff).

As a result of this increase, the law **REQUIRES** a retailer who sells tobacco products to do both of the following:

- Take a physical inventory of all cigarettes and OTP that it has on hand for sale as of the close of business July 31, 2002. The amount of cigarettes and OTP a licensee or retailer has "on hand for sale" is the actual physical inventory of cigarettes and OTP. This includes cigarettes and OTP offered for sale, kept on site, and kept or stored at other locations in Michigan.
- File a tobacco products floor tax return postmarked by September 3, 2002, and pay the additional tax of 50 cents per pack of 20 cigarettes and the additional tax of 4% of the wholesale price of OTP for all physical inventory on hand as of the close of business on July 31, 2002. Note that the tobacco tax licensees that you purchase your tobacco products from are responsible for reporting and collecting the tax at the rate in effect on August 1, 2002 on any cigarettes or OTP that you received on or after August 1, 2002, regardless of whether the cigarettes or OTP was shipped before August 1, 2002.

"Wholesale" Price of OTP

The inventory tax on OTP is based on the "wholesale" price of the OTP. **IT IS IMPORTANT TO NOTE** that the wholesale price of OTP is the established price for which a manufacturer sells tobacco products to a distributor before the allowance of any discount, trade allowance, rebate or other reduction. In the absence of the established price, the wholesale price is the manufacturer's invoice price. If you know the "wholesale" price, you should apply the inventory tax rate to that amount. **However, if you do not know or cannot identify the wholesale price of the OTP, you may use 50% of the OTP retail price (excluding sales tax) as the wholesale price.**

Physical inventory

The results of the physical inventory of tobacco products must be reported on the Michigan Tobacco Products Inventory Tax Return form #2374, *Tax Return*, that is enclosed with this notice.

If you have tobacco products stored, kept or offered for sale at more than one business location in Michigan, you must file one inventory tax return for each location that has a separate Federal Employer Identification Number (FEIN) (tax identification number). Cigarettes and OTP stored at locations other than the primary business location must be included in the inventory for the inventory tax. A separate physical inventory must be taken at each location.

If you have tobacco products stored, kept or offered for sale at more than one business location in Michigan **and each location uses the same the FEIN** (tax identification number), you must file one inventory tax return that includes the information for all locations. A separate physical inventory must be taken at each location. Copies of the inventories must be forwarded to the location responsible for completing the inventory tax return. Cigarettes and OTP stored at locations other than the primary business location must be included in the inventory for the inventory tax.

If you do not sell tobacco products or do not have an inventory, please complete the name and Federal Employer ID Number portion of form #2374 Michigan Cigarette Inventory Tax Return and mark the box in the shaded area indicating that you do not sell cigarettes or OTP. Complete the form and submit it to the Department postmarked by September 3, 2002.

Inspection and audit

For audit purposes, retailers must keep all records of the physical inventory used to arrive at the tobacco products inventory tax due. The original inventory record shall be kept at each retail location for four months and retained for four years at the main office.

The Michigan Department of Treasury may require distributors to disclose recent purchases and historic purchase trend information to assist in administering the inventory tax.

Inventory Tax Return form – Obtaining, Filing and Paying

If you are required to file a return but have not received one, the Michigan Tobacco Products Inventory Tax Return form #2374 is available by visiting our web site at <http://www.michigan.gov/treasury>, by contacting the Tobacco Products Inventory Tax Review Unit at 517-636-4158 or by faxing the unit at 517-241-7732 to request a form. The form must be submitted with the appropriate tax payment by September 3, 2002.

A retailer's failure to receive a tobacco products inventory tax form is not an acceptable reason for failure to file and pay the tobacco products inventory tax that is due.

Forms and payments that are not timely filed may be subject to assessment of penalty and interest for late filing in accordance with the Revenue Act, 1941 PA 122.

Failure to file form #2374 and/or remit the tax due may result in the issuance of a computed intent to assess for tax, penalty and interest in accordance with the Revenue Act, 1941 PA 122.

Please do not hesitate to contact the Tobacco Products Inventory Tax Review Unit at 517-636-4158 if we can be of assistance.